

MULTIFAMILY PROPERTY TAX EXEMPTION

Policy Review: Set 1

February 27, 2013

Policy Questions

MFTE Review

*Feb 13:
Administrative
Procedures*

*Feb 27: Policy
Questions 1*

*Mar 13: Policy
Questions 2*

*Mar 27:
Follow-Up*

- Income Requalification
- Student Eligibility
- Assets and Co-Signers
- Compliance, Fees, and Records
- Substantially Proportional
- Presumed Occupancy

Income Requalification

Audit Rec'dation #4:

If the City wishes to ensure that MFTE housing is provided to low and moderate income households only, we recommend that it consider requiring tenants to re-qualify for their housing annually or every two years.

- Existing Code requires qualification only at move-in.
- A switch to periodic requalification assumes that MFTE tenants:
 - stay in place over multiple years
 - see incomes grow substantially over time.
- In fact, we find few cases of long-term tenancies, suggesting that income requalification will provide little benefit.

Student Eligibility

Auditor's policy question:

Should dependent students be considered to live in MFTE affordable units when parents' income exceeds program income requirements?

- Existing Code places no restrictions on student eligibility for MFTE units.
- In a recent review, about 17% percent of MFTE units appeared to be student-occupied. The percentages vary widely by building and by neighborhood.
- Many students – and others – indicate gifts as a primary source of income.
- Focusing on the form of income, rather than the occupation of the tenant, may be more consistent with program goals.
- Option: limit the share of an MFTE tenant's income that can come from gifts.

Assets and Co-Signers

Auditor's policy questions:

Should a co-signer's income be taken into account?

Should tenant assets be taken into account in determining eligibility for MFTE housing?

ASSETS

- Uncommon for housing programs to restrict assets.
- Little evidence that MFTE tenants hold sizeable assets.
- Assumed interest (at 3%) on cash assets is already factored into income qualification.

GUARANTORS

- Common for landlords to require co-signer when tenants have little rental history or questionable credit.
- Effectively prohibiting co-signers may be unduly punitive.
- Restricting gifts as a source of income can help mitigate against over-reliance on parental assets.

Compliance, Fees, and Records

Audit Recommendation #15:

The City should consider ... requiring OH to do periodic audits of the tenant income eligibility documents.

#16:

The City should [...require...] MFTE properties to retain income eligibility documents from one year to six years from the termination of the tenants' rental agreements.

#17:

The City should consider charging an administrative fee to MFTE property owners to cover the cost of automating reports and improving program oversight.

- OH instituted site monitoring in January 2013; Council could choose to mandate this practice through Code.
- Continued monitoring and other administrative requirements are likely to impose costs; OH proposes completing the program review process before developing a staffing and cost proposal.
- OH retains annual reports per City retention schedule. Requiring properties to maintain former tenants' paperwork for six years after move-out seems impractical.

“Substantially Proportional”

*Audit Rec'dation
#18:*

*OH should ...
ensure that
affordable units are
substantially the
same size as market
rate units and that
tenants of MFTE
affordable units are
not being charged
more on a square
footage basis than
market rate units....*

*“Substantially
proportional to the
mix and
configuration”
should be clearly
defined by
ordinance.*

- Code requires that MFTE units are “substantially proportionate” to market-rate units.
- Code (5.73.040.B.3) applies the requirement to unit sizes.
- Layering further proportionality aspects will make it harder for landlords to designate alternate MFTE units.

Presumed Occupancy

*Auditor's
policy
question:*

*Should [OH]
be modified
... by
assuming a
more realistic
tenant per
bedroom
occupancy
rate?*

- Other OH programs assume 1.5 persons in a 1-bedroom; existing OH Director's Rule for MFTE assumes 2 persons in a 1-bedroom.
- Actual occupancy for an MFTE 1-bedroom averages around 1.5 persons.
- Practical effect: would reduce monthly rent for a 1-bedroom by about \$65, from \$1,301 to \$1,238.
- Raises broader issues about affordability levels; **one of several topics for upcoming meetings.**